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Work by proxy advisory firms just not good enough, Sheritt shareholder says

Barry Critchley | April 25, 2014 | Last Updated: Apr 25 6:46 PM ET
More from Barry Critchley

In Takota's view, "the growing influence of proxy advisory firms is raising enough troubling questions for the future of proper corporate governance that financial regulators are becoming involved."

Toronto-based Takota Asset Management – and predecessor firms — is very familiar with Sherritt International, its predecessor company and the spinoffs. For more than two decades – save for a period before the global financial crisis – it was an equity investor in all the companies – and it made money. But after the financial crisis Takota piled back in and Sherritt now represents its "biggest position."

And Takota says Sherritt can do much better for its shareholders: at last year's annual meeting it argued buying back its own shares "offers Sherritt the best possible risk-adjusted return on capital." Takota also advocated Sherritt form a special committee to investigate the performance of SNC-Lavalin, the contractor of its Ambatovy, Madagascar nickel project that took longer and cost more to complete.

Takota has been vocal before the May 6 annual meeting, an event made more interesting because of the actions of dissident shareholder Clarke Inc. Takota plans to support the three Clarke nominees – and not the three Sherritt nominees.

Meantime, Takota is critical of the role played by proxy advisory firms in helping institutional investors decide how to vote on certain motions to be presented at the annual meeting. (The main two firms, ISS and Glass Lewis have made recommendations supporting Sherritt.) Now the money manager has put those criticisms in a letter to its clients. For instance:

- Why is it that despite the two recommendations, the price of Sherritt's shares "has stalled and even retreated despite the continuing increase in the price of nickel"? Takota postulates the share price reaction has been caused by market participants "voting with their feet in fear that such recommendations will actually move the odds of the incumbent Board remaining entrenched?"
- Why don't institutional investors do their own research rather than rely on the work of others? Takota argues the institutions are, in effect, "abdicating their fiduciary responsibility to make informed decisions on behalf of their stakeholders."

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On Thursday, for example, the Canadian Securities Administrators published for comment proposed National Policy 25-201 Guidance for Proxy Advisory Firms. "We believe that providing proxy advisory firms with recommended practices and disclosure is appropriate to heighten transparency and maintain a high degree of confidence in the quality of the voting process," it said.

- Why do institutions follow the recommendations of the proxy advisory firms when the work, at times, is either inadequate or done by junior analysts? (Personally I don't know if that's true but I have heard many criticisms.)

Takota speaks from personal experience having seen the work of the proxy advisory firms during the proxy battle against Zarlink Semiconductors. In short, the manager was not impressed with the knowledge gap between the proxy firm's analyst and dissident nominees.

• Why aren't the full recommendations of the proxy advisory firms made public? That situation allows the companies under attack to cherry pick the recommendations.

On the Sherritt matter, Takota finds it rather absurd that one proxy advisory firm has mentioned "positive analyst sentiment" as a reason to endorse the incumbent board.

By that logic, institutional investors, which don't want to do the necessary work, defer work to the proxy advisory firms, which in turn defer to the analysts.

Concludes Takota: It just ain't good enough.
